

Business Provisions of American Recovery and Reinvestment Act (ARRA)

IRS, Small Business Self Employed Division

Faster Write-Offs for Certain Capital Expenditures

Many small businesses that invest in new property and equipment will be able to write off most or all of these purchases on their 2009 returns. The new law extends through 2009 the special 50 percent depreciation allowance, also known as bonus depreciation, and increased limits on the section 179 deduction, named for the relevant section of the Internal Revenue Code. Normally, businesses recover these capital investments through annual depreciation deductions spread over several years. Both of these provisions encourage these investments by enabling businesses to write them off more quickly.

The bonus depreciation provision generally enables businesses to deduct half the cost of qualifying property in the year it is placed in service.

The section 179 deduction enables small businesses to deduct up to \$250,000 of the cost of machinery, equipment, vehicles, furniture and other qualifying property placed in service during 2009. Without the new law, the limit would have dropped to \$133,000. The existing \$25,000 limit still applies to sport utility vehicles. A special phase-out provision effectively targets the section 179 deduction to small businesses and generally eliminates it for most larger businesses.

Bonus depreciation and the section 179 deduction are claimed on Form 4562. Further details are in the instructions for this form.

Expanded Net Operating Loss Carryback

Many small businesses that had expenses exceeding their incomes for 2008 can choose to carry those losses back for up to five years, instead of the usual two. For small businesses that

were profitable in the past but lost money in 2008, this could mean a special tax refund. The option is available for a small business that has no more than an average of \$15 million in gross receipts over a three-year period.

This option is still available for most eligible taxpayers, but only for a limited time. A corporation that operates on a calendar-year basis, for example, must file a claim by Sept. 15, 2009. For eligible individuals, the deadline is Oct. 15, 2009.

Eligible individuals should file a claim using Form 1045, and corporations should use Form 1139. Details can be found in the instructions for each of these forms, and answers to frequently-asked questions are posted on IRS.gov.

Exclusion of Gain on the Sale of Certain Small Business Stock

The new law provides an extra incentive for individuals who invest in small businesses. Investors in qualified small business stock can exclude 75 percent of the gain upon sale of the stock. This increased exclusion applies only if the qualified small business stock is acquired after Feb. 17, 2009 and before Jan. 1, 2011, and held for more than five years. For previously-acquired stock, the exclusion rate remains at 50 percent in most cases.

Estimated Tax Requirement Modified

Many individual small business taxpayers may be able to defer, until the end of the year, paying a larger part of their 2009 tax obligations. For 2009, eligible individuals can make quarterly estimated tax payments equal to 90 percent of their 2009 tax or 90 percent of their 2008 tax, whichever is less. Individuals qualify if they received more than half of their gross income from their small businesses in 2008 and meet other requirements. For details, see Publication 505.

COBRA Credit

Employers that provide the 65 percent COBRA premium subsidy under ARRA to eligible former employees claim credit for this subsidy on their quarterly or annual employment tax returns. To help avoid imposing an unnecessary cash-flow burden, affected employers can reduce their employment tax deposits by the amount of the credit. For details, see Form 941. Answers to frequently-asked questions are posted on IRS.gov.

Other ARRA business provisions relate to discharges of certain business indebtedness, the holding period for S corporation built-in gains and acceleration of certain business credits for corporations. Also see Fact Sheet FS-2009-11.

Other Business Provisions:

- **Making Work Pay Tax Credit.** Businesses should use the [new withholding rates](#) for their employees. For pension plan administrators, new [optional withholding procedures](#) are available to supplement the [February withholding tables](#).

- **Work Opportunity tax credit.** This [newly-expanded credit](#) adds returning veterans and "disconnected youth" to the list of new hires covered by the credit that businesses may claim. Certification by the state work force agency is required.

- **Energy Efficiency and Renewable Energy Incentives.** See [what businesses can do](#) to reap tax rewards.

- **Municipal Bond Programs.** There are [new ways](#) to finance school construction, energy and other public projects.

Information for Individuals

Some of the provisions of the law primarily affect individuals.

- **Making Work Pay Tax Credit.** This tax credit means more take-home pay for many Americans. To make sure enough tax is withheld from their pay, taxpayers can use the [IRS withholding calculator](#).

. See [Making Work Pay](#) for more.

- **First-Time Homebuyer Credit Expands.** Homebuyers who purchase in 2009 can get [a credit of up to \\$8,000](#) with no payback requirement. Expires 12/1/2009.

- **Money Back for New Vehicle Purchases.** Taxpayers who buy certain new vehicles in 2009 can [deduct the state and local sales taxes](#) they paid or other taxes and fees they paid in [states with no sales tax](#).

- **Enhanced Credits for Tax Years 2009, 2010.** Find details on the [earned income tax credit](#), [additional child tax credit](#), and the [American Opportunity Credit](#), a new higher education benefit.

- **Increased Transportation Subsidy.** Employer-provided [benefits for transit and parking](#) are up in 2009.

- **Up to \$2,400 in Unemployment Benefits Tax Free in 2009.** Individuals should [check their tax withholding](#).

- **\$250 for Social Security Recipients, Veterans and Railroad Retirees.** The [Economic Recovery Payment](#) will be paid by the Social Security Administration, Department of Veterans Affairs and the Railroad Retirement Board.

- **Energy Efficiency and Renewable Energy Incentives.** See [what individuals can do](#) to reap tax rewards.

- **Health Coverage Tax Credit.** The [credit](#) increases from 65 percent to 80 percent of qualified health insurance premiums, and more people are eligible.

For more information on all of these provisions, go to www.irs.gov/recovery.

For other tax related information helpful to small businesses, go to www.irs.gov/businesses/sm

all